

Bob Costello
President of Social Security Choice.org

Thank you for the opportunity to speak to you today about Social Security. It is critical that we address immediately our bankrupt retirement system. The American people understand that we need to fix and modernize our national retirement system – they are ahead of the politicians on this issue. A recent poll for the Annenberg Public Policy Center found that 56 percent favor letting workers invest some of their Social Security contributions in the investment market, compared to only 36 percent opposed. The goal of this reform should be to have a sound retirement system for every generation of American workers.

Social Security is the largest and most popular government program in the world. Only ten countries have a total budget larger than Social Security. The origin of our current Social Security system goes back to the national social insurance movement in Bismarck's Germany in the 1880's. The start of our program goes back 69 years to FDR's administration.

The Social Security system is a pay-as-you-go system meaning it is not a savings or investment system but a simple transfer from worker to retiree. The failure of our current system stems from this pay-as-you-go nature in which your payroll taxes are never saved or invested for your retirement. We have a retirement system designed without savings.

Changing demographics make the current system unsustainable. Pay-as-you-go works when you have 16-1 workers to retirees as we had in the 1950's. Currently we have about 3.3 workers for each retiree and in about 20 years from now, we will only have about 2 workers for each retiree. The system's finances are not sustainable as it is currently designed. In addition to the system being financially insolvent there are two other problems with the current pay-as-you-go design. The average worker today can expect a rate of return of less than 2 % on his or her Social Security taxes. Secondly under the current plan the worker has no ownership rights in the payments they have made in to the system. The Supreme Court ruled in 1960 in *Flemming v. Nestor* that there is no legal right to Social Security benefits. American workers are at the mercy of the Washington politicians regarding what benefits they receive for their FICA payments. Interestingly FICA is suppose to stand for Federal Insurance Contribution Act. Doesn't look like it is either insurance or a voluntary contribution. The current system is bankrupt - it is not a question of whether it should be fixed – it has to be fixed.

We can design a better system. Allowing workers to put a portion of their payroll taxes into Personal Retirement Accounts (PRAs) is the answer. Currently the payroll tax is 12.4% of each workers wages. With PRAs every worker is a saver which would mean an increase in national savings rate, an increase in productivity, wages and the economic strength of the country. Each worker would be a stakeholder in this growing economy.

Personal Retirement Accounts will be most meaningful for lower and average income Americans. The wealthy already have savings and investment accounts but the lower and

average income workers, after they pay their FICA payroll taxes, mortgage or rent and put food on the table don't have any money left over to put into saving or retirement accounts. The current system forces working Americans to put almost all of their retirement savings into a program that gives them a lousy investment return. Not only is the current Social Security system a bad investment for American workers but also participants don't have any ownership rights to what they pay into system.

We need to use the current crisis in this system to design a modern sound retirement system that will be there for every generation. Today's young workers deserve the same level of security as their grandparents. People retiring in 2035 shouldn't have to be in the same retirement system that was modeled in the 1880's or created in the 1930's. The world has changed since 1935 – in 1935 there were no personal computers, no cheerios - there wasn't even a Mount Rushmore.

Our retirement system needs to be modernized. We need a system where Americans can invest in a retirement account where they would own and control the assets – funds not controlled by big corporations or big government. The assets in these accounts will compound and create real wealth. Albert Einstein called compound interest “the most powerful force in the Universe.” We need to have this force of compound interest working for every American. PRAs will give American workers dignity and a sound retirement. PRAs would be true lockboxes for real savings that politicians can't get their spendthrift paws on.

Some ask: “wouldn't PRAs lead to problems like Enron?” I find it just the opposite that our current Social Security system has much in common with the Enron scandal. Under every PRA proposal workers could invest only in diversified, approved mutual funds, not in single stocks or highly volatile stocks.

Social Security, like Enron uses ambiguous “trust fund” accounting that exaggerates assets and hides liabilities. Social Security, like Enron gives workers little control over their savings. Social Security like Enron doesn't allow workers to diversify. Low wage workers have no other retirement savings besides Social Security. In addition, like Enron Social Security is going broke.

The Enron problem revealed that people need more choice and more control over their retirement savings, including the option to invest a portion of their payroll taxes in PRAs.

In my opinion the best plan to address this crisis is “The Individual Social Security Investment Plan Act” (HR4895) which was introduced by Congressman, Sam Johnson of Texas. This issue must be addressed in 2005. It is estimated by the Cato Institute every two year election cycle that we delay in addressing this problem will increase the cost of reform by \$320 billion. It will be expensive to move to a modern sound and funded system but it will be less than ten percent of the cost of maintaining our current pay-as-you-go bankrupt system. Remember, the goal should be to have a sound retirement system for every generation. Funding real saving through PRAs is the only real answer.